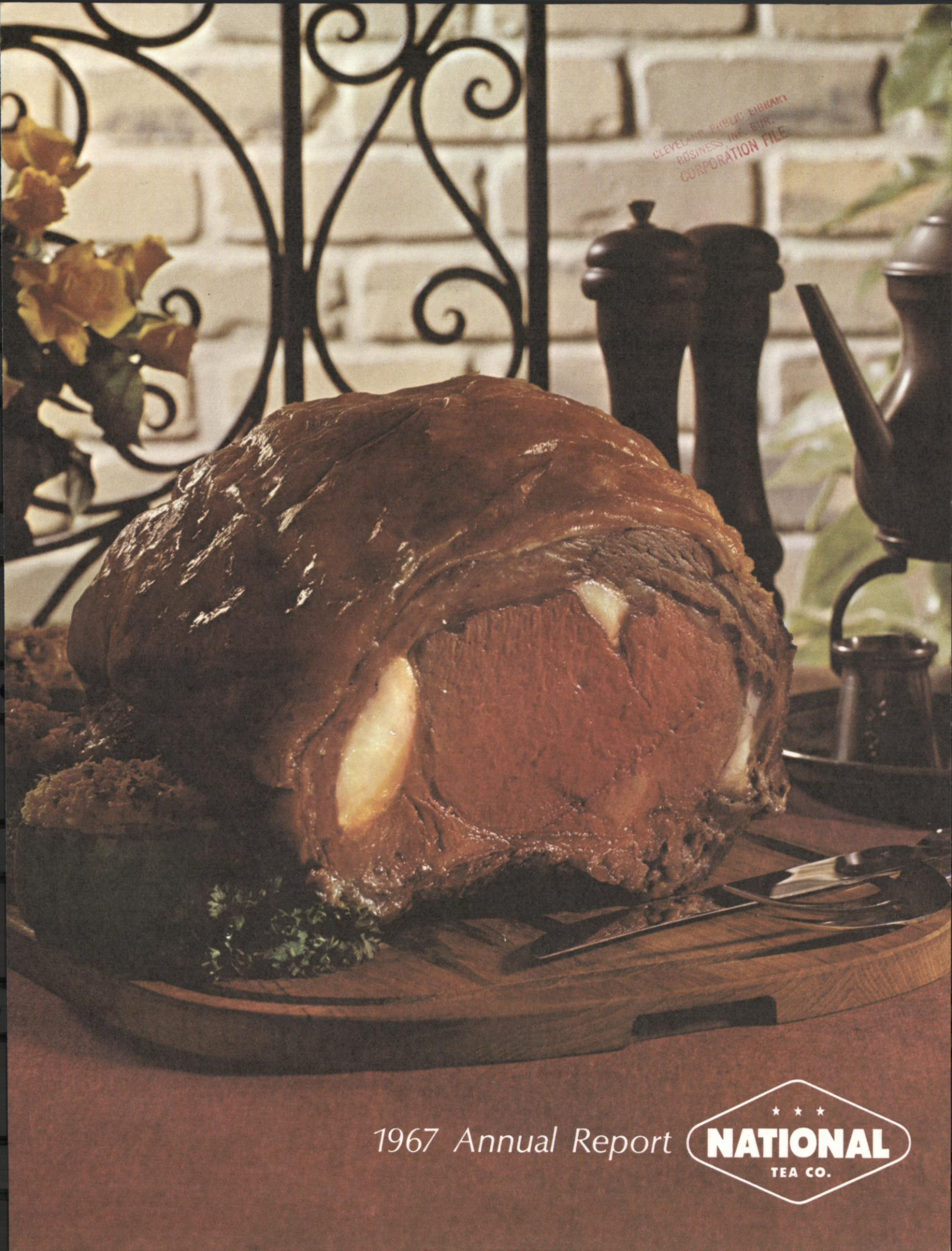

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1967 Annual Report

NATIONAL TEA CO.

NATIONAL TEA CO.

1967 Annual Report

For the year ended December 30, 1967

The New Look in National's stores is typified here in a new Chicago area store. The design concept places emphasis on one-stop shopping convenience through offering more non-food items such as drugs and housewares. An on-premise bakery and delicatessen provide additional convenience. The new concept results in stores about twice as large as those built three years ago. Fifty such stores are planned for 1968.

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Directors and Officers . Inside back cover

NATIONAL TEA CO.
Chicago, Illinois

Notice of Annual Meeting of Shareholders to be Held March 21, 1968

To the Shareholders of National Tea Co.:

The Annual Meeting of Shareholders of National Tea Co. will be held at 223 N. Michigan Avenue, Chicago, Illinois, 7th floor, on Thursday, March 21, 1968, at 10:00 A.M., for the following purposes:

1. To elect a Board of nine Directors.
2. To transact such other business as may properly come before the meeting.

Only shareholders of record at the close of business on February 16, 1968, of the Company's Common Shares will be entitled to vote at the meeting. If you do not expect to attend the meeting, please date, sign and mail promptly the enclosed Proxy in order that a quorum may be present at the meeting and that your shares may be voted for you.

By order of the Board of Directors.

ALLAN WILSON, JR.,
Secretary.

March 1, 1968

NATIONAL TEA CO.

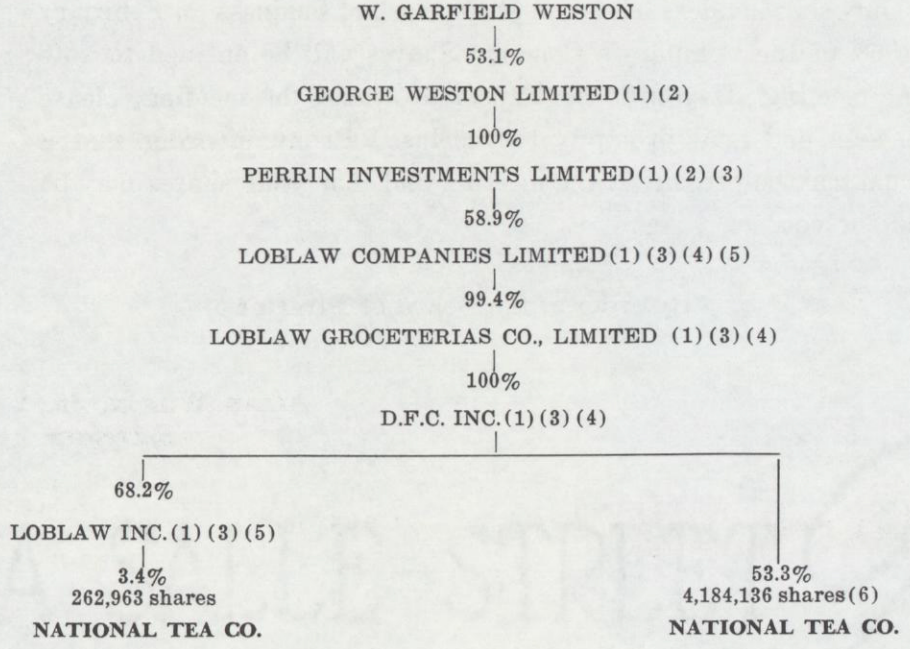
Proxy Statement

1. The Annual Meeting of Shareholders. The Annual Meeting of Shareholders of National Tea Co. (the Company) will be held March 21, 1968, for the purposes set forth in the accompanying Notice. The only matter which the management of the Company intends to present or knows will be presented by others is that stated in item 1 of such Notice. Should any other matters properly come before the meeting, it is the intention of the proxies named in the enclosed Proxy to act upon them according to their best judgment.

2. Voting Rights and Proxy. The voting securities of the Company which were outstanding as of February 16, 1968, consisted of 7,847,156 Common Shares, of the par value of $4 per share. In the election of directors, each shareholder has as many votes as equals the number of directors to be elected (nine) multiplied by the number of his shares and has the right to vote for as many persons as there are directors to be elected or to cumulate such votes and cast all of them for one candidate or to distribute them among as many candidates as he shall elect. February 16, 1968, has been fixed as the record date for determining shareholders entitled to notice of and to vote at the meeting.

The enclosed Proxy is solicited by the management. If the Proxy in such form is properly executed and returned, the Common Shares represented thereby will be voted at the meeting. The Proxy, if given, may be revoked by the shareholder executing it at any time prior to its being voted.

Based upon information furnished the Company by representatives of Mr. W. Garfield Weston, a director of the Company, the relationship to the Company of Mr. Weston and certain affiliates controlled by him is set forth in the diagram below. The percentage figures indicate the percentage of outstanding voting capital stock of the affiliate controlled by the person or the company named just preceding such percentage figure.



(1) Mr. George C. Metcalf is a director and officer.
(2) Mr. W. Garfield Weston is a director and officer.
(3) Mr. E. L. Jones is a director and officer.
(4) Mr. Richard G. Meech is a director and officer.
(5) Mr. W. Struan Robertson is a director.
(6) Includes beneficial interest in shares held by Messrs. Weston, Metcalf, Meech and Jones.

3. Nominees for Directors. The Board of Directors at its regular meeting held February 12, 1968, changed the Company's fiscal year end from the Saturday nearest December 31 to the Saturday nearest March 31. As a consequence, the Company's next fiscal year will be 1969 and will commence on March 31, 1968. This change necessitated changing the date for the Annual Meeting of Shareholders, which has been March 21 in each year, including this year, and the Board of Directors has amended the By-laws of the Company to fix the fourth Tuesday in June of each year commencing with the year 1969 as the date for the Annual Meeting of Shareholders. Therefore, the nine directors who are to be elected at the meeting will serve from March 21, 1968 until June 24, 1969, or until their successors are elected and qualified. It is intended that the Proxy, if given, will, unless it is otherwise specified thereon, be voted for the persons named below, all of whom are now members of the Board of Directors.

Name	*Principal Occupation*	*Commencement of period of service as Director*	*Common Shares beneficially owned as of February 16, 1968*
John F. Cuneo	President of The Cuneo Press, Inc.	1945	24,066
Edward L. Jones	Vice President and Secretary-Treasurer of Loblaw Companies Limited	1960	300(1)
John E. Laughlin	Executive Vice President—Operations of the Company	1967	2,300
Frank E. Linquist	Executive Vice President—Merchandising of the Company	1967	1,400
Richard G. Meech	Vice President of Loblaw Companies Limited	1956	300(1)
George C. Metcalf	President of George Weston Limited and Loblaw Companies Limited and Chairman of the Company	1956	300(1)
W. Struan Robertson	Partner, Borden, Elliot, Kelly & Palmer, Attorneys	1965	None
Norman E. Stepelton	President of the Company	1961	3,210
W. Garfield Weston	Chairman of the Board of George Weston Limited	1956	300(1)

(1) Of record only, beneficial interest held by D.F.C., Inc.

In case any of the above named nominees is not a candidate at the meeting, an event which the management does not anticipate, it is intended that the enclosed Proxy, if given and unless it is otherwise specified thereon, may be voted for a substitute nominee and will be voted for the other nominees above named.

4. Remuneration and Other Transactions of Directors and Officers. Furnished below is information with respect to all direct remuneration paid by the Company and its subsidiaries during the last fiscal year ended December 30, 1967, for services in all capacities to each director of the Company whose aggregate direct remuneration exceeded $30,000 and each of the three highest paid officers of the Company whose aggregate direct remuneration exceeded that amount and to all directors and officers as a group, including the number thereof; and each such person's (and as a group) share of the Company and participating subsidiaries contribution to the Company's Profit Sharing Trust for such fiscal year and the aggregate of such contribution as at the end of such fiscal year.

Name of individual or number of persons in group	*Capacities in which remuneration was received*	*Aggregate direct remuneration*	*1967 Company and participating subsidiaries contribution to Profit Sharing Trust*	*Aggregate Company and participating subsidiaries contribution to Profit Sharing Trust*
John E. Laughlin	Director and Executive Vice President—Operations	$ 60,700	$ 2,284	$ 17,766
Frank E. Linquist	Director and Executive Vice President—Merchandising	60,800	2,284	15,276
Norman E. Stepelton	Director and President	201,000	8,557	69,490
Claude H. Webster	Director and Senior Vice President	73,700	3,086	36,426
Directors and officers as a group (25)	Directors and Officers	841,167	32,626	265,047

(a) *Deferred Compensation.* The Company has agreed to pay as deferred compensation to each of the persons named below, or his designee or his beneficiary or estate in the event of his death, in addition to such other compensation as may from time to time be paid to him by the Company, the annual amount and for the period indicated below, upon his retirement, leaving the Company with its consent, or total disability or death when he is an employee of the Company.

Name	*Annual Amount*	*Payment Period*
Norman A. Stepelton	$30,000	10 years
Claude H. Webster	10,000	10 years

(b) *Other Transactions.* During the fiscal year ended December 30, 1967, the Company purchased, in the ordinary course of business, the products, in the aggregate dollar amounts, and from the sources, indicated below. The relationship of the source to the Company is also shown.

Products	*Aggregate Dollar Amount*	*Source*
Dairy products	$25,375,000	Hawthorn Mellody, Inc.(1)
Bakery products	2,890,000	Weston Biscuit Company, Inc.(2)
Fish products	64,000	Rupert Fish Co.(3)
Bakery products	384,000	Johnson Biscuit Company(4)
Eggs	411,399	National Mellody Farm Fresh Egg Co.(5)

(1) Mr. Cuneo owns or controls, directly or indirectly, a 51.94% interest.

(2) Wholly-owned by George Weston Limited (see paragraph 2, page 1 hereof).

(3) Majority interest indirectly owned by George Weston Limited (see paragraph 2, page 1 hereof).

(4) Wholly-owned by D.F.C., Inc. (see paragraph 2, page 1 hereof).

(5) 50% owned by the Company and 50% owned by Processing and Books, Inc. which is 76% owned by Mr. Cuneo.

The prices charged the Company are both competitive and no higher than charged to any other customer.

5. Solicitation Cost. The cost of preparing and mailing this Proxy Statement, the Notice attached thereto and the form of Proxy which is submitted herewith will be borne by the Company. The Company upon request will reimburse persons holding Common Shares in their names, or the names of their nominees, for the benefit of others for expenses in forwarding proxies and accompanying material to their principals, and will reimburse brokers in accordance with rates approved by the New York Stock Exchange for their expenses in similarly soliciting such of their customers as are beneficial owners of such shares. Solicitation other than by mail may be made, but, if made, it will be made at a nominal cost and by directors, officers and regular employees of the Company.

By Order of the Board of Directors.

ALLAN WILSON, JR.,
Secretary

March 1, 1968

PRESIDENT'S LETTER

To Our Shareholders:

Net income for 1967 was $10,773,740 or $1.37 per share compared with $10,861,775 or $1.30 per share earned in 1966. Sales were $1,147,220,942, a decline of 3.6% from last year's sales of $1,190,494,686. Net income for the year included a special credit arising from the sale of real estate in the amount of $1,491,515 or $.19 per share, which was recorded in the second quarter. The per share figures are based upon an average of 7,845,613 shares outstanding in 1967, and an average of 8,355,281 shares outstanding in 1966, computed in accordance with procedures newly recommended by the American Institute of Certified Public Accountants.

Retail food industry sales, along with other segments of the retailing business, were adversely affected in 1967 as the American consumer elected to save more of his disposable income and to spend less. As a result, sales in the first half of 1967 were weaker in comparison with recent years. This weakness in retail food sales occurred despite the fact that prices of food for home consumption leveled off and actually decreased in 1967 as compared with 1966.

During the third quarter, as consumer confidence was restored, our sales showed an increase over the prior year. Our fourth quarter sales were markedly improved over those of 1966.

A breakdown of sales by quarters compared with last year (excluding those of the 62 Detroit area stores disposed of in 1966) is useful in visualizing the magnitude of the change in our sales trend during the year:

	SALES		
	1967	1966 (Excluding Detroit)	% Increase (decrease) over prior year
1st Qtr. (12 wks.)	$255,608,654	$267,519,875	(4.5)%
2nd Qtr. (12 wks.)	257,226,687	268,563,459	(4.2)
3rd Qtr. (16 wks.)	352,003,152	348,451,237	1.0
4th Qtr. (12 wks.)	282,382,449	271,356,446	4.1
Year	$1,147,220,942	$1,155,891,017	(.8)%

While we were unable to recoup the sales loss of the first two quarters and loss of sales due to the 1966 disposition of the Detroit area stores, we were encouraged in the last half of the year by an increase over the prior year which carried the Company to the third highest sales mark in our history. Significantly, the year ended on a high note with excellent sales momentum in all Divisions.

National's profile of profits for the year paralleled the sales trend. As expected, we had to cope with rising costs, particularly wage costs, in every segment of the business. At the same time there was a leveling off of retail prices brought about in part by lower commodity prices and in part by intense retail price competition in the markets we serve. The Company achieved an improvement in sales beginning in the third quarter, and this increased volume, together with rigid control of expenses accounted for improved profits in the latter part of the year.

New National Food Store Concepts

A major instrument in our Company's market strategy is a new concept of design, style and layout for our newest supermarkets, the first few of which were put into operation in the last quarter. This new generation of stores is in the 22,000–30,000 sq. ft. size range, in marked contrast to the 16,000–17,000 sq. ft. range of the past few years.

With stores of this type it will be possible to achieve larger sales volume on a more efficient basis, carrying even further the ideology of the earliest supermarkets which integrated separate grocery, meat and fruit and vegetable stores into a single composite store. The integration of the various departments into these new stores represents, we feel, the finest supermarkets, designed from the ground up to please family shoppers. It is planned that in the course of operating these new 1970 generation stores, we will achieve greater production and operating efficiencies, thus enabling us to obtain wider margins of profit which are so necessary to show a satisfactory return on investment.

In 1967, 23 new stores were opened, seven of which were relocations of older stores. The average size of these stores was 18,398 square feet. During the past year, 41 stores were enlarged or remodeled, following this new multi-department concept, at a capital outlay of approximately $3,700,000, while 36 outmoded stores were closed.

Organizational Changes

Mr. C. H. Webster retired as Senior Vice President on January 31, 1968, but will make himself available as advisor to the President.

Mr. Marvin E. Cross, Director of Produce Operations, was elected a Vice President.

Mr. Wilson B. Thomas, Director of Real Estate Operations, was elected a Vice President.

Mr. E. C. Winland, Comptroller, was appointed Director of Management Information Systems and elected a Vice President.

Mr. Leonard Zarzynski, formerly Assistant Treasurer and Assistant Secretary, was elected Comptroller.

Our growing on-the-job training program for in-store employees and service personnel was intensified during the year in our continuing effort to upgrade skills and better utilize the talent of our 26,000 men and women who staff the Company. A major new Customer Relations Program has been prepared for launching in 1968, which should further improve our service to customers.

Prospects for 1968

Sales during the first few weeks of 1968 have continued the favorable trend established in the latter half of 1967. Leading economists are forecasting a strong first half in 1968, particularly for the retail segment of the economy. National's operations and business are tied closely to the economy and will be greatly influenced by the direction of the nation's economy.

Our Company has established clearly defined and realistic goals for each of our divisions, and we will be working with all the resources at our disposal to reach these objectives during the coming year. We are determined to make consistent progress toward our corporate objectives of larger, more diversified stores, improved warehousing and more efficient merchandising operations throughout our organization. We are well aware of the pressures of rising costs and the certainty of continued keen competition, but it is our expectation that we will be able to achieve sales growth with a more equitable return for our shareholders during the year 1968.

Sincerely,

N. A. Stepelton

N. A. Stepelton
President

FINANCIAL HIGHLIGHTS

FOR THE FISCAL YEAR ENDED:	December 30, 1967	December 31, 1966	January 1, 1966	January 2, 1965 (53 weeks)	December 28, 1963
Sales	$1,147,220,942	$1,190,494,686	$1,161,948,193	$1,122,515,806	$1,056,919,339
Income before Federal income taxes	$ 15,966,225	$ 18,807,775	$ 19,891,190	$ 20,346,294	$ 16,890,546
Federal income taxes	6,684,000	7,946,000	8,575,000	9,706,000	8,526,000
Extraordinary item, net of taxes	1,491,515	—	—	—	840,710
Net income	$ 10,773,740	$ 10,861,775	$ 11,316,190	$ 10,640,294	$ 9,205,256
Percent to sales	.94%	.91%	.97%	.95%	.87%
Per share*					
Before extraordinary item	1.18	1.30	1.33	1.25	1.00
Extraordinary item	.19	—	—	—	.10
Net income	1.37	1.30	1.33	1.25	1.10
Dividends per share	.80	.80	.80	.80	.80
AT YEAR END:					
Working capital	$ 59,783,321	$ 57,676,864	$ 63,031,103	$ 61,729,199	$ 57,425,117
Property and equipment	86,106,124	89,383,710	93,481,743	92,987,098	94,905,503
Long-term debt	22,305,258	25,758,274	25,380,901	30,905,630	32,531,023
Shareholders' investment	122,415,374	117,889,000	126,659,444	119,227,040	116,159,100
Shares outstanding	7,847,156	7,845,056	8,631,976	8,483,152	8,525,815
Book value per share	15.60	15.03	14.67	14.05	13.62
Supermarkets in operation	852	865	941	973	986

*Based upon weighted average of shares outstanding.

FINANCIAL REVIEW

Development of new stores has required more and more Company resources during the past few years. Because of higher interest rates, increased construction costs, and higher land costs, it has become more difficult for individual investors to develop new store locations. In order to obtain the store sites that are vital to continued growth, the Company is now required to undertake much of the development work and investment formerly handled by the real estate developer.

One indication of this is our increase in the asset "Real Estate in Process of Development and Sale," which rose from $1,493,507 in 1966 to $2,684,004 in 1967. In addition, 30,000 square foot stores, with many departments, which represent the "New Look" at National, require increased investment in fixtures as well as inventory.

Operations of the Company provided sufficient funds in 1967 to finance new store growth without recourse to outside borrowing. Total expenditures for all capital improvements, including new stores, remodeled stores and improvements to warehouse and transportation facilities were $12,360,355.

At December 30, 1967, the ratio of consolidated assets to consolidated current liabilities was 2.3 to 1—unchanged from the prior year-end. During the year the Company's long-term debt was reduced by $3,453,016.

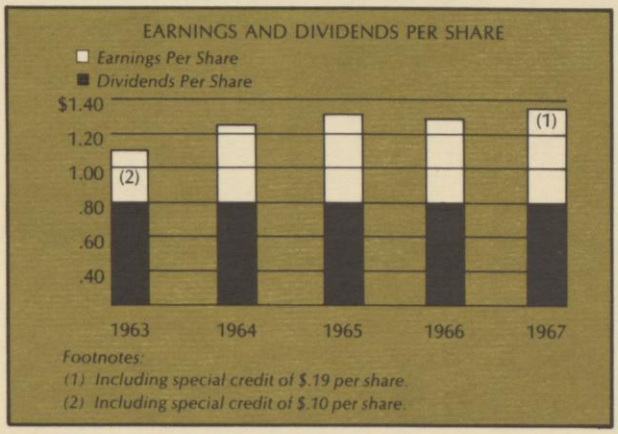
Lower volume stores, which are generally inadequate in size, have been relegated to the unprofitable category by the march of rising costs of doing business. Our program has been to replace such stores with larger stores or to close them, if they fall below our minimum profit standards. This program has gradually reduced the number of stores in operation, but has raised the average volume, as the chart on the opposite page indicates. Overall, our average store size in 1967 was 14,144 sq. ft. It is a clear indication of what the future holds to note that our new generation of National Food Stores as graphically portrayed in this year's Report are 22,400 to 30,000 sq. ft. in size.

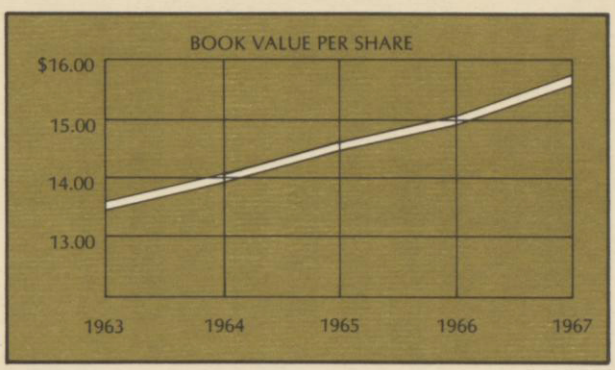
We have more than doubled our Kare Drug Store operations in the past three years. The Kare program is a significant diversification for the Company and the higher margins in the drug and health and beauty aids categories will contribute attractively to increased profitability.

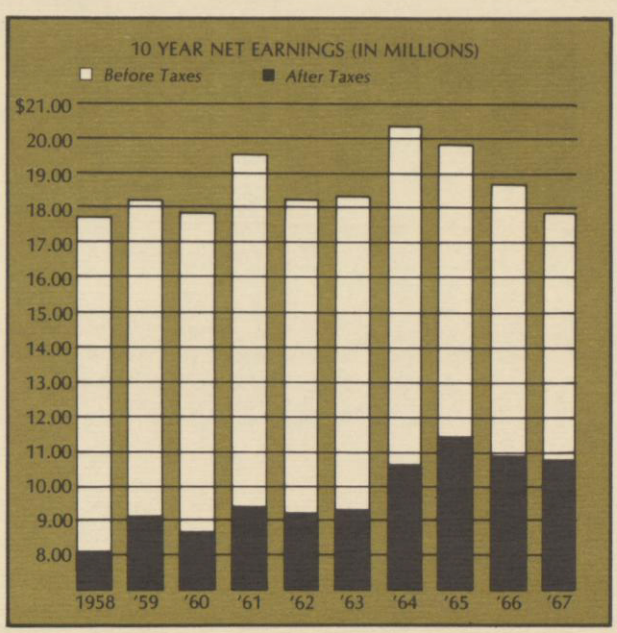
There is a new corporate image emerging at National. The early results are beginning to be felt. The effect will not be fully evident for several years, but all available resources are being applied to attain this objective at the earliest possible date.

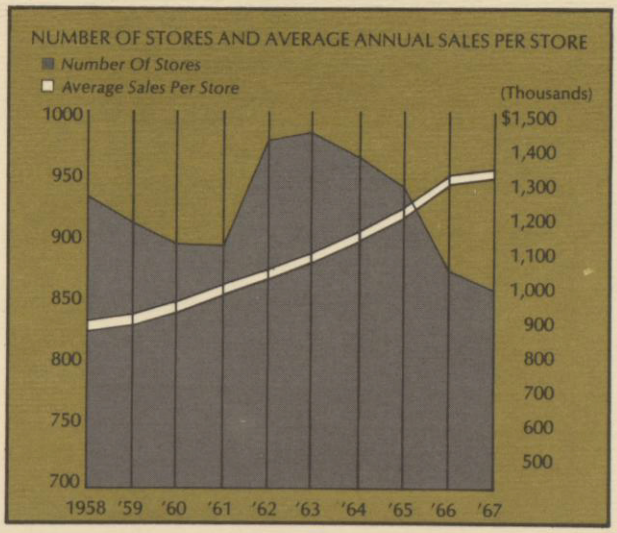
1967 DISTRIBUTION OF THE SALES DOLLAR

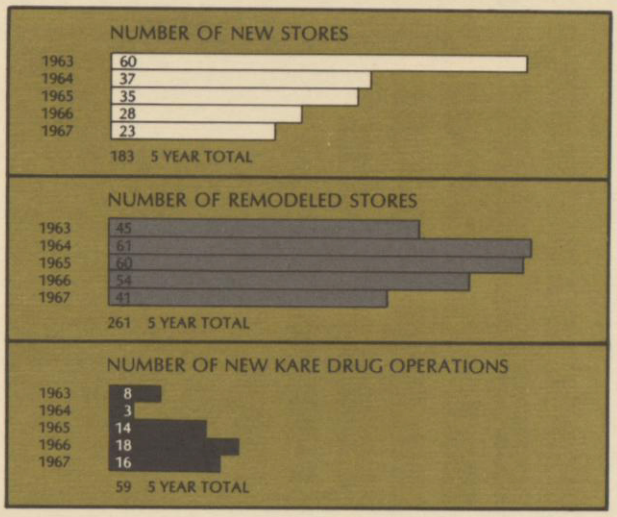
Cost of Merchandise Sold	79.00%
Wages and Benefits	13.09%
Rent, Repairs and Depreciation	3.69%
Other Expenses	2.18%
Taxes	1.10%
Dividends	.55%
Retained Earnings	.39%

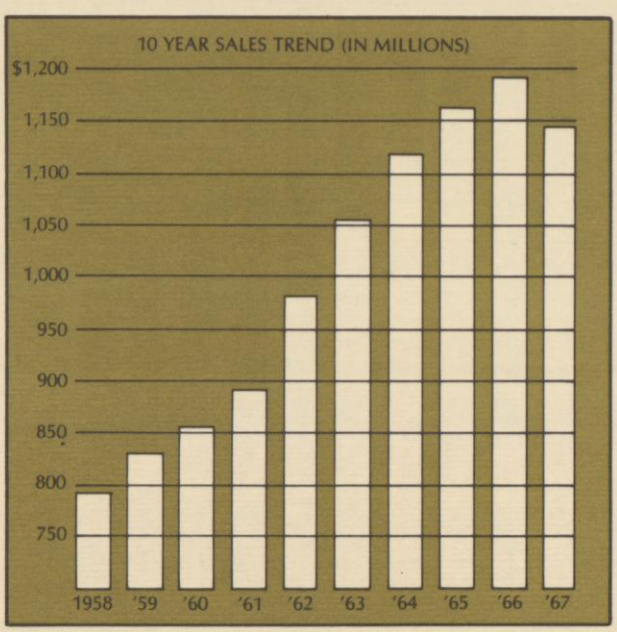












CONSOLIDATED BALANCE SHEETS

ASSETS

	December 30, 1967	December 31, 1966
CURRENT ASSETS:		
Cash	$ 9,145,300	$ 15,849,893
Accounts receivable	7,978,931	7,314,955
Inventories, at lower of average cost or market	88,522,439	83,422,574
Prepaid expenses, etc.	5,168,286	4,355,777
Real estate in process of development and sale	2,684,004	1,493,507
Total current assets	$113,498,960	$112,436,706
OTHER ASSETS	$ 5,134,687	$ 2,401,200
PROPERTY AND EQUIPMENT, at cost:		
Land	$ 2,769,617	$ 2,929,324
Buildings	7,611,338	10,296,686
Fixtures and equipment	118,536,113	109,131,008
Reserves for depreciation	(61,769,726)	(55,672,392)
Leasehold improvements, less amortization	18,052,490	21,792,792
	$ 85,199,832	$ 88,477,418
Unamortized excess of cost of investment in divisions and subsidiaries over underlying book values at dates of acquisition	906,292	906,292
	$ 86,106,124	$ 89,383,710
	$204,739,771	$204,221,616

The accompanying notes are

The Growth of Kare Drug Operations

A major part of the New Look in National stores is Kare Drugs. Kare operations combine a pharmacy with general nonfood merchandise, resulting in a full service drug store for the food shopper. Thus, the two most frequently shopped retail outlets—food store and drug store—are located under one roof.

The growth of Kare Drug operations indicates the popularity of this shopping convenience. Initial Kare Drug Stores, opened only four years ago, had no more than 400 square feet of floor space within the food store. New Kare departments have been increased in size each year, and in 1968, the typical Kare Drug operation will require 8,000 square feet.

The growth rate of Kare Drug operations also reflects this popular demand. The number of operations increased by 30% in 1967 to a total of 59. A similar increase is projected for 1968.

Professionalism, Integrity, Honesty and Reliability

But it is not simply expansion that tells the real story of Kare Drug operations. In following your Company's tradition of creating increasingly high standards of excellence, Kare has established—and lived up to—its credo of care, integrity, honesty and reliability. Consumers were quick to recognize this as evidenced by rapidly growing prescription files in all of our Kare prescription departments.

Perhaps the management method of Kare Drug operations *best* explains this rapid consumer acceptance and confidence: Kare's registered pharmacists carefully prepare customers' prescriptions and create the friendly atmosphere of the corner drug store. Further, the Kare management team is made up exclusively of registered pharmacists who are familiar not only with pharmacy operations but also merchandising of drug sundries and other non-food categories. Management is confident that the rapidly-growing Kare Drug operations will contribute significantly to making National's New Look a dominant one in today's markets.

More Shopping Ease With In-Store Bakeries

The pattern of home baking is now almost nonexistent. Today's busy customers want convenience. By installing the latest in-store baking facilities, National has been able to offer the finest in fresh baked goods most efficiently. Our experience with these facilities has shown that in-store bakeries bring a large side reward: the delectable aroma of piping-hot pastry, cake and pie stimulates customers' appetites and results in greater *overall food sales*. This is a measurable advantage above and beyond the normal increase in bakery sales. National's pioneering efforts in this area show that one-stop shopping pays... for both consumers and your Company.

Delicatessens: Another Store Within a Store

These same principles of shopping convenience hold true in relation to the installation of delicatessens. Only a few years ago supermarket shoppers were very conservative about trying "gourmet" foods and delicatessen-prepared foods. Now, however, the consumer pattern is far from conservative, and management is installing large, up-to-date Delicatessen departments designed to serve today's shopper by offering pre-cooked delicacies requiring a minimum of preparation.

Added Convenience Through Liquor Departments

Where feasible, the New Look National store includes a liquor department to capitalize on all of the highest turnover merchandise in this category. These departments compare with a typical well-stocked liquor store. The liquor department of National's new Glenview, Illinois store, for instance, has a large selection of the more popular imported and domestic fine wines and liquors. Combining liquor stores with other favorite retail shopping outlets is a further effort by National in creating a truly complete store.

In the Experimental Stage

In its continuing exploration of new store concepts National has opened an in-store restaurant in the Indianapolis Division. Here shoppers can relax and enjoy a complete meal or simply coffee and pastry in cheerful comfort.

Management expects this operation to prove yet another way in which National will attract and hold customers through friendly service.

The New Look: A Creative Solution For the Future

By creatively applying the Company's consumer research to the task of designing the stores to meet the future's needs, National is laying the groundwork for a prosperous future. The previous plethora of unknowns has been overcome through this research and it is now the prudent judgement of your Company that the problems of obsolescence can be effectively circumvented. Therefore, the increased emphasis on new store construction is not only timely but warranted. The way to a most rewarding future has emerged. And the way is through National's New Look.

The Proposed New Addison, Illinois Store

Tomorrow's Stores Designed for Today's Customers

Americans and the American way of life have undergone revolutionary changes in the Sixties. Population and income have grown explosively. Almost half the population is 25 years of age or younger—a highly significant reduction of the average age. Modern communications bring instantaneous information about events and how others live. Through all these processes, life styles are changing.

The modern food merchandiser must not only keep up with these vast changes but he must analyze and interpret important trends in order to meet the needs of the future. Nowhere is this more important than in designing food stores. Costs dictate that they must meet the desires of today's—and the future's—customers. Much of this year's report will show how National is meeting this challenge of change.

Year of Decision: A New Policy and a New Look

Research by National and independent marketing firms pointed unmistakably toward the emergence and development of the one-stop shopping concept. Further, industry studies showed that nonfood sales were growing at a greater rate than retail food sales. This was verified by National's own experience in its Kare Drug operations. It was found that the addition of nonfood and drug sections *increased* food sales significantly, indicating customer acceptance of shopping for as many things as possible *under one roof*.

This research and experimental background led the Company to decide on a definite policy of increased nonfoods merchandising.

Nonfood merchandise lines selected for our new, larger stores include the highest turnover items of the typical drug store, the well-stocked liquor store and the houseware and soft goods lines of large department stores. Thus, in a sense, this meant a policy of returning to the old idea of the country general store . . . a super one. The years of research brought forth a new kind of store for National.

Inside the New Look Store

National's new, modern Glenview, Illinois store, for example, has been designed for the modern customer. The store combines many of today's typical stores into a handsome store of wide aisles and pleasant surroundings. The charming New Orleans French Quarter decor creates a warm, cozy atmosphere.

In addition to National's superior foods, the customer will find a well-stocked Kare Drug operation.

She will also enjoy a complete on-premise bakery with piping-hot pastries . . . a liquor department . . . a National Gourmet Kitchen delicatessen . . . even a flower shop. In short, most of her day to day needs can be found under one roof in stores of this type.

As National's research and experimentation have shown, this kind of store can be expected to appeal to the new younger customer—now and in the future. Management is confident that large but pleasant stores will go far in building a significantly greater customer preference for National. And, accordingly, management has launched a construction program of erecting 50 such stores in 1968, 24 of which will be built in the Chicago Division. These new stores are planned to be from 22,000 to 30,000 square feet in size, as opposed to the average 16,000 square foot store of only a few years ago. The stores are, indeed, designed for the future.

A store is only the sum of its parts, however, and the remainder of the non-financial sections of this report is devoted to examining these various departments in which National offers customers the best possible quality in food and nonfood merchandise.

Meat Makes the Difference!

A store can only succeed if its meat department pleases today's increasingly wise shopper. To assure success in this area, National takes many steps which go beyond the normal course of obtaining fine meats for our customers.

For instance, National maintains rigid quality controls from the feeding of cattle, through the packing operation, to the store meat case. In order to produce beef with greater flavor and tenderness, a Company-formulated diet of cooked corn, much like cornflakes, is specified. At Company feed lots in Brighton, Colorado, purebred yearling Hereford and Angus heifers are fed this corn diet for five long months. Beef quality is further assured through Company operation of its own packing plants in Denver, Colorado and Fergus Falls, Minnesota.

Another area in which National's quality control methods bring higher standards is the area of processed meats. The Company's own luncheon meats and new vacuum-packed bacon, for instance, receive detail-conscious care which results in superior products in these fast-moving categories. The Denver Processing Plant assures our customers of greater value in processed meats, and at the same time, assures a reasonable return for the Company.

Of all the steps National can take to build customer loyalty, management feels that maintaining highest possible meat standards is one of the most crucial. Our customers deserve it.

Dawn Dew Fresh Fruits and Vegetables

National makes every possible effort to insure that customers can select fruits and vegetables which have that just-picked goodness. To maintain the highest possible standard of quality and freshness, National maintains three produce procurement headquarters in Fresno, California; Lakeland, Florida; and Chicago, Illinois. Expert field buyers work out of these headquarters, going out into the fields and selecting the best of the crop. These on-the-spot specialists then supervise the packing and select the speediest transportation, whether truck, rail or air.

Highest quality is maintained through rigid temperature controls throughout all phases of transportation, warehouse and store operations. In addition, "controlled atmosphere" transportation methods extend the fresh life of these fruits and vegetables by lowering the oxygen and increasing the carbon dioxide in the shipping environment.

Controlled atmosphere is one of the newest freshness-insuring techniques and is being used on more and more produce items.

From field to our customer's shopping cart, National's high standards of quality control strive to bring plump, succulent fruits and vegetables "Dawn Dew Fresh" to our customers.

NATIONAL TEA CO. & SUBSIDIARIES

LIABILITIES

	December 30, 1967	December 31, 1966
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 3,503,000	$ 3,086,000
Accounts payable	37,450,409	35,405,696
Accrued liabilities	7,502,769	7,706,959
Federal income taxes	5,259,461	8,561,187
Total current liabilities	$ 53,715,639	$ 54,759,842
LONG-TERM DEBT:		
Installment mortgage notes on store buildings	$ 886,258	$ 641,274
3½% promissory notes, due serially to 1969	86,000	172,000
4% promissory notes, due serially to 1973	6,800,000	7,800,000
5% sinking fund debentures, due 1977	7,200,000	7,680,000
5¼% note, due in installments to 1971	5,000,000	7,000,000
3½% subordinated debentures, due 1980	2,333,000	2,465,000
	$ 22,305,258	$ 25,758,274
OTHER LIABILITIES:		
Deferred Federal income taxes	$ 5,913,500	$ 5,424,500
Self-insurance	390,000	390,000
	$ 6,303,500	$ 5,814,500
SHAREHOLDERS' INVESTMENT:		
Common shares, $4 par value, authorized 10,000,000 shares; issued 8,756,788 shares (8,754,688 in 1966)	$ 35,027,152	$ 35,018,752
Paid-in surplus	30,823,955	30,803,217
Earned surplus	71,533,260	67,036,024
	$137,384,367	$132,857,993
Less cost of 909,632 common shares in treasury	14,968,993	14,968,993
	$122,415,374	$117,889,000
	$204,739,771	$204,221,616

an integral part of these statements.

STATEMENTS OF CONSOLIDATED INCOME AND SURPLUS

	FIFTY-TWO WEEKS ENDED	
INCOME:	December 30, 1967	December 31, 1966
SALES	$1,147,220,942	$1,190,494,686
COSTS AND EXPENSES:		
Cost of sales, occupancy, buying and other operating expenses	$ 991,155,040	$1,033,533,838
Selling, general and administrative expenses	138,499,220	136,456,009
Interest expense, net	1,124,457	1,149,064
Profit sharing	476,000	548,000
Federal income taxes	6,684,000	7,946,000
	$1,137,938,717	$1,179,632,911
Income before extraordinary item	$ 9,282,225	$ 10,861,775
GAIN ON SALE OF REAL ESTATE, net of $497,000 Federal income taxes	1,491,515	—
Net income	$ 10,773,740	$ 10,861,775
Per Common Share:		
Income before extraordinary item	1.18	1.30
Extraordinary item, net of tax	.19	—
Net income	$ 1.37	$ 1.30
EARNED SURPLUS:		
BALANCE—Beginning of year	$ 67,036,024	$ 62,919,888
ADD (DEDUCT):		
Net income	10,773,740	10,861,775
Dividends ($.80 per share)	(6,276,504)	(6,745,639)
BALANCE—End of year	$ 71,533,260	$ 67,036,024
PAID-IN SURPLUS:		
BALANCE—Beginning of year	$ 30,803,217	$ 30,761,001
Excess of proceeds over par value of common shares sold to officers and employees under stock option plan	20,738	42,216
BALANCE—End of year	$ 30,823,955	$ 30,803,217

The accompanying notes are an integral part of these statements.

STATEMENT OF CONSOLIDATED SOURCE AND DISPOSITION OF FUNDS

	FIFTY-TWO WEEKS ENDED	
SOURCE OF FUNDS:	December 30, 1967	December 31, 1966
Net income	$10,773,740	$10,861,775
Non-cash items deducted in arriving at net income:		
Depreciation and amortization	13,399,780	13,826,694
Deferred Federal income taxes	489,000	(221,500)
Total funds from earnings	$24,662,520	$24,466,969
Proceeds from sale of 2,100 common shares to optionees (4,275 in 1966)	29,138	59,316
Proceeds from 5 1/4% note issued (net of retirement of 4 3/4% note in the amount of $5,000,000)	—	5,000,000
Proceeds from sale of fixtures and equipment in 62 Detroit area stores	—	3,034,157
Total	$24,691,658	$32,560,442
DISPOSITION OF FUNDS:		
Cash dividends to shareholders	$ 6,276,504	$ 6,745,639
Additions to property and equipment	12,360,355	12,785,318
Maturities of long-term debt	3,453,016	4,622,627
Acquisition of treasury shares	—	12,945,896
Other dispositions, net	495,326	815,201
Increase (decrease) in working capital	2,106,457	(5,354,239)
Total	$24,691,658	$32,560,442

The accompanying notes are an integral part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Long-Term Debt

Aggregate maturities and sinking fund requirements under long-term loan agreements, exclusive of minor installments due on store building mortgage loans are $3,503,000 in 1968, $3,566,000 in 1969, $3,480,000 in 1970, $2,480,000 in 1971 and $1,480,000 in 1972.

Dividend Restriction

Under the terms of the indenture securing the 5% Sinking Fund Debentures, $41,921,781 of earned surplus is restricted as to the payment of cash dividends on and the purchase of common shares at December 30, 1967. In addition, the company must maintain a current ratio of consolidated current assets to consolidated current liabilities as defined in the indenture of at least 2 to 1. As of December 30, 1967, the current ratio as defined was 2.3 to 1.

Lease Commitments

At December 30, 1967, the company and its subsidiaries had 647 leases expiring more than three years after that date (some of which contain percentage rental clauses) with minimum annual rentals amounting to approximately $17,200,000 exclusive of taxes, insurance and maintenance payable by the lessee. Of this amount, approximately 55% applies to leases expiring within 10 years.

AUDITORS' REPORT

ARTHUR ANDERSEN & CO.

69 West Washington Street
Chicago, Illinois 60602

TO THE SHAREHOLDERS,
NATIONAL TEA CO.:

We have examined the consolidated balance sheet of NATIONAL TEA CO. (an Illinois corporation) AND SUBSIDIARIES as of December 30, 1967, and the related statements of consolidated income and surplus and source and disposition of funds for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and reported on the financial statements for the preceding fifty-two week period.

In our opinion, the accompanying consolidated financial statements referred to above present fairly the financial position of National Tea Co. and Subsidiaries as of December 30 ,1967, and the results of their operations and the source and disposition of funds for the fifty-two weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fifty-two week period.

ARTHUR ANDERSEN & CO.

Chicago, Illinois
February 9, 1968

Board of Directors

JOHN F. CUNEO
President of The Cuneo Press, Inc.

EDWARD L. JONES
Vice President, Secretary and Treasurer of Loblaw Companies Limited

J. E. LAUGHLIN
Executive Vice President–Operations

FRANK E. LINQUIST
Executive Vice President–Merchandising

RICHARD G. MEECH
Vice President of Loblaw Companies Limited

GEORGE C. METCALF
Chairman of the Company, President of George Weston Limited and Loblaw Companies Limited

W. STRUAN ROBERTSON
Partner, Borden, Elliot, Kelly and Palmer

NORMAN A. STEPELTON
President and Chief Executive Officer

W. GARFIELD WESTON
Chairman of the Board of George Weston Limited

Principal Corporate Officers

GEORGE C. METCALF
Chairman of the Company

NORMAN A. STEPELTON
President and Chief Executive Officer

J. E. LAUGHLIN
Executive Vice President–Operations

FRANK E. LINQUIST
Executive Vice President–Merchandising

Vice Presidents

GEORGE E. HOUSTON
Regional Operations

RODGERS N. BROWN
Regional Operations

WILLIAM H. LOWMAN
Meat Operations

MARVIN E. CROSS
Produce Operations

ROBERT S. KLEGON
Drug Operations

H. L. MARTIN
Personnel

WILLIAM J. LEDERER
General Counsel

J. P. QUIRK
Labor Relations

WILSON B. THOMAS
Real Estate

JAMES E. COLLOTON
Warehousing & Transportation

ROBERT E. SWAIN
Store Planning & Equipment

E. C. WINLAND
Management Information Systems

NAT MALT
Division Manager

GORDON A. SEEBERG
Division Manager

Secretary-Treasurer
ALLAN WILSON, JR.

Comptroller
LEONARD ZARZYNSKI

HOME OFFICE
1000 N. Crosby Street
Chicago, Illinois 60610

DIVISIONAL OFFICES AND WAREHOUSES
Chicago • Minneapolis • Milwaukee
Indianapolis • St. Louis
New Orleans • Memphis
Davenport • Denver • Sioux City
Youngstown

TRANSFER AGENTS
The First National Bank of Chicago, Chicago, Illinois
The Chase Manhattan Bank, New York, New York

REGISTRARS
Continental Illinois National Bank & Trust Company of Chicago, Chicago, Illinois
Chemical Bank New York Trust Company, New York, New York

TRANSFER AND PAYING AGENTS
3 1/2% Debentures
Chemical Bank New York Trust Company New York, New York
5% Debentures
Morgan Guaranty Trust Company New York, New York

A pilot In-Store Restaurant was opened in an Indianapolis Area store. Complete meals, as well as snacks, offer customers a pleasant way to take an enjoyable break while shopping.

NATIONAL TEA CO.

The unique feature of National's new store design concept is the combination of many of the most frequently shopped retail outlets. These new stores embody the one-stop shopping concept which is a modern adaptation of the country general store . . . a super one.